

## Message Text

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ACTION EB-07

INFO OCT-01 EUR-12 ISO-00 AID-05 CIAE-00 FRB-01 INR-07

NSAE-00 RSC-01 TRSE-00 XMB-02 OPIC-03 SP-02 CIEP-01

LAB-04 SIL-01 OMB-01 STR-01 NIC-01 AGR-05 NSC-05

SS-15 CEA-01 SAJ-01 FEA-01 OES-03 INT-05 DODE-00

PA-01 USIA-06 PRS-01 IO-10 BIB-01 /105 W

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R 270542Z DEC 74

FM AMEMBASSY BUDAPEST

TO SECSTATE WASHDC 2454

DEPT OF COMMERCE WASHDC

INFO AMEMBASSY BELGRADE

AMEMBASSY BUCHAREST

AMEMBASSY MOSCOW

AMEMBASSY PRAGUE

AMEMBASSY SOFIA

AMEMBASSY VIENNA

AMEMBASSY WARSAW

AMCONGEN MUNICH

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E.O. 11652: N/A

TAGS: ECON, HU

SUBJ: ECONOMIC LEADERSHIP REVIEWS 1974 PERFORMANCE  
AND PLANS FOR 1975

REF: BUDAPEST 3407

1. SUMMARY: YEAR END SPEECHES ON ECONOMY GIVEN IN  
PARLIAMENT BY TOP ECONOMIC POLICY MAKERS REFLECT PICTURE  
OF MIXED RESULTS FOR 1974 AND PROSPECTS FOR MORE MODERATE  
RATES OF GROWTH IN 1975. WHILE ALL MAJOR PRODUCTION GOALS  
FOR 1974 ACHIEVED, RISE IN CONSUMER PRICE INDEX HELD

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TO LESS THAN 2 PERCENT. HUNGARY EXPERIENCED LARGEST TRADE DEFICIT

IN RECENT YEARS WITH NON-COMMUNIST COUNTRIES, AND CENTRAL SUBSIDIES TO COMPENSATE ENTERPRISES FOR HIGH WORLD MARKET PRICES FOR NEEDED IMPORTS BALLOONED. CHIEF GOAL OF 1975 PLAN IS TO "RESTORE BALANCE TO THE ECONOMY." WITH MORE MODERATE RATES OF INDUSTRIAL GROWTH, REAL WAGES AND CONSUMPTION FORESEEN AND CENTRAL AUTHORITIES PLAYING AN INCREASINGLY IMPORTANT ROLE IN ECONOMIC POLICY MAKING. ALTHOUGH SPECIFIC DETAILS REGARDING THIS INCREASED CENTRAL ROLE HAVE NOT BEEN SPELLED OUT, IT IS PROBABLE THAT THE CENTRAL DECISION MAKERS WILL FOCUS THEIR ACTIVITIES ON A SPEEDIER PHASE-OUT OF INEFFICIENT INDUSTRIES, CLOSER SUPERVISION OF SIXABLE INVESTMENT PROJECTS, ENERGY CONSERVATION AND A MORE DETAILED LISTING OF PRIORITIES FOR HARD CURRENCY EXPENDITURES. END SUMMARY

2. PRINCIPAL SPEECHES ON ECONOMY GIVEN BY POLITBURO MEMBER NEMETH, FINANCE MINISTER FALUVEGI, STATE PLANNING COMMITTEE CHAIRMAN LAZAR AND AGRICULTURAL MINISTER DIMENY. IN REVIEWING RESULTS FOR 1974, SPEAKERS REITERATED GROWTH STATISTICS SET FORTH IN RECENT CENTRAL COMMITTEE COMMUNIQUE (SEE REFTEL). ON NEGATIVE SIDE, SEVERE STRAINS HAD BEEN PLACED ON ECONOMY DUE TO WESTERN INFLATION WITH HUNGARIAN INDUSTRY FORCED TO PAY MUCH HIGHER PRICES FOR BASIC IMPORTS SUCH AS OIL, CHEMICALS, SOY BEANS, SUGAR, PAPER AND FERTILIZER. THIS TOGETHER WITH A SLOWER RISE IN PRICES FOR HUNGARIAN EXPORTS, THE COMMON MARKET BAN ON BEEF IMPORTS, AND DIFFICULTIES WITH CERTAIN AGRICULTURAL CROPS -- MOST NOTABLY GRAPE AND SUGAR BEET -- COMBINED TO BRING ABOUT A SIZABLE DEFICIT (ABOUT \$500 MILLION) IN HUNGARY'S TRADE WITH WEST. THESE STRAINS HAD MADE MORE APPARENT LONG-STANDING WEAKNESSES IN HUNGARIAN ECONOMY SUCH AS THE INABILITY TO SWIFTLY PHASE-OUT INEFFICIENT INDUSTRIAL PRODUCTION AND THE SLOW COMPLETION OF LARGE INVESTMENT PROJECTS.

3. THE EMPHASIS FOR 1975 IS "A RESTORATION OF BALANCE" TO THE ECONOMY. DURING THE COMING YEAR, SLIGHT REDUCTIONS ARE SEEN IN PLANNED RATES FOR INDUSTRIAL GROWTH (PLUS 6 PERCENT) AND NATIONAL INCOME (5-5 1/2 PERCENT) AND SOMEWHAT LARGER DECLINES IN INCREASES OF PER CAPITA, REAL WAGES (PLUS 2.5 PERCENT) CON-

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SUMPTION (PLUS 4 PERCENT), AND REAL INCOME PER CAPITA (PLUS 3.5 PERCENT).

AVERAGE WAGES HIKES FOR STATE ENTERPRISES AND COOPERATIVES WILL BE HELD TO ABOUT 5 PERCENT AND SALARY JUMPS IN MINISTRIES ARE EXPECTED TO BE EVEN MORE MODEST. INDUSTRIAL GROWTH WILL BE PASSED BY CHEMICAL INDUSTRY (PLUS 9-10 PERCENT), ELECTRIC ENERGY (PLUS 7-8 PERCENT), AND BUILDING INDUSTRY (PLUS 7 PERCENT). I  
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AGRICULTURE EMPHASIS WILL BE ON A MARKED RISE IN SUGAR BEET PRODUCTION, A CONTINUATION OF MEAT DEVELOPMENT PRODUCTION, A STRENGTHENING OF LARGE AGRICULTURAL ENTERPRISES, AND AN EXPANSION OF THE CLOSED PRODUCTION APPROACH TO CROP CULTIVATION.

4. FINANCE MINISTER FALUVEGI STATED THAT PRODUCERS PRICES WILL GO UP BY AN AVERAGE OF 8 PERCENT DURING THE COMING YEAR TO REFLECT PRICE CHANGES ON WORLD MARKETS. HOWEVER, HE ADMITTED THAT SUCH A RISE WAS ONLY A PARTIAL ATTEMPT AND IMPLIED THAT A CONSIDERABLE SUBSIDIES BURDEN WOULD CONTINUE TO BE BORNE BY CENTRAL GOVERNMENT TO COMPENSATE INDUSTRIES FOR HIGH WORLD PRICES OF RAW MATERIALS AND SEMI-FINISHED PRODUCTS. IN COMING YEAR CONSUMER PRICES WERE SCHEDULED TO RISE AN AVERAGE OF 3.6 PERCENT WITH MOST NOTABLE INCREASES FOR CHEMICAL GOODS (PLUS 4.3 PERCENT), FURNITURE (PLUS 3.5 PERCENT), AND CLOTHING (UNSPECIFIED). THE PRICES FOR STAPLES SUCH AS SUGAR, BREAD, FLOUR, MILK, AND MEAT WILL REMAIN UNCHANGED.

5. STATE BUDGET ANTICIPATES EXPENDITURE OF 323.4 BILLION FORINTS VERSUS INTAKE OF 318.5 BILLION FORINTS AND WILL REGISTER PLANNED DEFICIT OF 4.9 BILLION FORINTS. WHILE FALUVEGI COMMENTED THAT GOVERNMENT EXPECTED TO COVER DEBT FROM FOREIGN LOANS, HE WARNED THAT SUCH LOANS COULD ONLY BE TEMPORARY EXPEDIENT AND THAT NATION MUST NOT GET INTO HABIT OF SPENDING MORE THAN IT EARNS.

6. INVESTMENTS IN COMING YEAR WILL TOTAL 129-130 BILLION FORINTS, A 9-10 PERCENT RISE OVER CURRENT INVESTMENT FIGURES. EMPHASIS WILL BE ON RAPID COMPLETION OF INVESTMENTS ALREADY IN PROGRESS RATHER THAN COMMENCEMENT OF NEW PROJECTS WITH 15 INVESTMENTS SCHEDULED TO BE FINISHED.  
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ONLY 3 MAJOR INVESTMENT PROJECTS ARE SCHEDULED TO BEGIN.

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7. THE INCREASED ROLE TO BE PLAYED BY CENTRAL AUTHORITIES WAS NOTED IN MOST COMMENTARIES ON 1975 ECONOMIC PLAN AND WAS GIVEN PARTICULAR EMPHASIS IN SPEECH BY POLITBURO MEMBER NEMETH WHO STRESSED THE IMPORTANCE OF PLANNING AND THE ROLE OF CENTRAL AUTHORITIES IN ACHIEVING ECONOMIC GOALS. NEMETH OBSERVED THAT WHILE MINISTRIES WERE GIVEN WIDE SPHERE OF AUTHORITY OVER ACTIVITIES OF INDIVIDUAL ENTERPRISES, THEY FREQUENTLY DID NOT EXERCISE THIS. ECONOMIC REGULATORS BY THEMSELVES WERE NOT SUFFICIENT TO INSURE THE MAINTENANCE OF BALANCE IN THE ECONOMY AND IT WAS, THEREFORE, NECESSARY TO EMPLOY DIRECT MEASURES ON BROADER BASIS. NEMETH STATED THAT MORE ACTIVE ROLE

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BY CENTRAL ECONOMIC PLANNERS WAS NOT CONTRADICTION TO CONTINUING EFFORT TO "STRENGTHEN ENTERPCGSES INDEPCENDENCE AND RESPONSIBILITIESHRHICH GO WITH IT, IN HARMONY WITH INTERSTFOF PEOPLE'S ECONOMY."

8. COMMENT: WHILEHRLM MESSAGES BY ECONOM LEADERSO NDAND 1975 PLAN ITSETN GIVE TSFICAL STRONG EMPHASIS TO POSITIVE ASPECTS OF ECONOMIC PERFORMANCE AND PROJECTS

FOR FUTURE, AT THE SAME TIME THEY LMLL THE AVERAGE CITIZEN TO REDUCE HIS EXPECTATIONS FOR FUTURE INCREASES IN STANDARD OF LIVING. THOSE IMPROVEMENTS WHICH DO COME WILL DEPEND TO A LARGE DEGREE ON HOW SUCCESSFUL LEADERSHIP CAN BE WITH ITS EFFORTS TO QUICKLY PHASE OUT INEFFICIENT PRODUCTION, MAXIMIZE TO THE FULLEST EXTENT INDUSTRIAL CAPACITY AND IMPROVE QUALITY OF MANUFACTURER'S SO MORE OF THEM WILL BE COMPETITIVE ON WORLD MARKET. PROGRAM AS ANNOUNCED THUS FAR STRIKES US AS A MODERATE ONE WHICH CONTAINS NO RADICAL REMEDIES. PRIMARY EMPHASIS INSTEAD IS TO DISCOURAGE NON-ESSENTIAL IMPORTS, ECONOMY IN THE USE OF ENERGY AND STRESS OPEN DEVELOPMENT OF COUNTRY'S MOST EFFICIENT INDUSTRIES IN ORDER TO REDUCE SIZE OF FOREIGN TRADE DEFICIT WITH WEST. PLANNED REDUCTIONS IN RATE OF GROWTH FOR REAL WAGES AND RAISING OF INFLATION RATES FOR CONSUMER PRICE INDEX ARE UNLIKELY TO CAUSE ANY SERIOUS INCONVENIENCE OR DISLOCATIONS. WHILE THERE IS FAIR AMOUNT OF GRUMBLING ABOUT PRICE RISES -- THE AVERAGE HUNGARIAN IS SIGNIFICANTLY PACIFIED BY GOVERNMENT'S ARGUMENTS THAT INFLATION RATE AND RATES OF REAL GROWTH FOR ECONOMY ARE QUITE FAVORABLE WHEN COMPARED TO CURRENT SITUATION IN WEST. CONSUMERS MAY ALSO BE REASSURED BY FACT THAT AT LEAST FOR MOMENT NO SIZABLE REDUCTIONS IN AVAILABILITY OF CONSUMER GOODS ARE PLANNED AS EVIDENCED BY GOVERNMENT'S PLAN TO IMPORT 80 PERCENT ADDITIONAL AUTOMOBILES FOR PERSONAL USE IN 1975.

9. GOH SEEMS TO BE ESSENTIALLY BUYING TIME IN HOPE THAT MODERATE REDUCTIONS IN GROWTH RATE, A VIGOROUS EFFORT TO ELIMINATE SIGNIFICANT WASTE AND INEFFICIENCY FROM ECONOMY AND FOREIGN CREDITS WILL SEE HUNGARY THROUGH PRESENT CRUNCH WHICH HAS RESULTED PRIMARILY FROM RAPID DETERIORATION IN HUNGARIAN TERMS OF TRADE. WHILE, BARRING THE UNFORESEEN, GOALS FOR 1975 PLAN ARE LIKELY TO BE LIMITED OFFICIAL USE

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ATTAINED. BIG QUESTION IS IF HUNGARY CAN MAINTAIN THESE GROWTH RATES DURING 1976-80 PERIOD AS SUGGESTED BY GUIDELINES FOR NEXT 5-YEAR PLAN ISSUED TWO WEEKS AGO BY CENTRAL COMMITTEE. IN SPITE OF CC'S PREDICTIONS THAT INDUSTRIAL PRODUCTION AND REAL INCOME WILL RISE AT BASICALLY SAME RATE DURING SECOND HALF OF DECADE AS DURING CURRENT 5-YEAR PLAN PERIOD, THERE SEEMS TO BE CONSIDERABLY MORE SKEPTICISM BY HUNGARIAN ECONOMISTS ON THIS POINT, PARTICULARLY WHEN IMPACT OF EXPECTED 1976 PRICES FOR RAW MATERIALS IMPORTED FROM THE SOVIET UNION ARE CONTEMPLATED.

10. ON SUBJECT OF CENTRAL CONTROLS, THERE ARE CURRENT INDICATIONS THAT CENTRAL DIRECTION OF ECONOMY WILL INCREASE ALTHOUGH FEW SPECIFICS ARE GIVEN AS TO EXACTLY WHERE AND WHAT TYPES OF MEASURES WILL BE USED. CENTRAL AUTHORITIES

UNDOUBTEDLY WILL ASSUME MORE ACTIVE ROLE IN URGING RAPID COMPLETION OF INVESTMENT PROJECTS, PROVIDE MORE ELABORATE GUIDELINES TO ESTABLISH PRIORITIES FOR GRANTING OF HARD CURRENCY CREDITS, CONSERVATION OF ENERGY, AND OTHER RAW MATERIALS, AND MOST IMPORTANT THE PHASE OUT OF INEFFICIENT INDUSTRIES -- AN AREA WHERE PROGRESS TO DATE SEEMS TO BE PARTICULARLY SLOW. WHILE PROSPECT OF INCREASED CENTRAL CONTROLS IS NO DOUBT PLEASING TO MORE CONSERVATIVE ELEMENTS BOTH HERE AND ELSEWHERE IN WP AREA, OUR FEELING IS THAT CALLS FOR INCREASED CENTRAL DIRECTION SUBSTANTIALLY MOTIVATED BY DESIRE TO GET TIGHTER HAND ON ECONOMY DURING A PERIOD OF ECONOMIC UNCERTAINTY. WHILE MAJOR REORGANIZATION OF INEFFICIENT AND UNPROFITABLE ORGANIZATIONS ON BASIS OF CENTRAL DIRECTIVES LIKELY TO BE FORTHCOMING, OUR GUESS IS THAT STRONG AND PROFITABLE ENTERPRISES WILL CONTINUE TO OPERATE WITH CONSIDERABLE INDEPENDENCE AT LEAST BY EASTERN EUROPEAN STANDARDS. IN LEAD EDITORIAL ON ECONOMIC DISCUSSION DECEMBER 22 NEPSZABADSAG REMINDED ITS READERS THAT CENTRAL DIRECTION ITSELF IS NO PANACEA POINTING OUT THAT SUCH DIRECTION "CAN ONLY BRING WITH IT CONSIDERABLE RESULTS IF IT IS ACCOMPANIED BY SPONTANEOUS, SELF-STARTING, RESPONSIBLE EFFORTS BY THE ENTERPRISES THEMSELVES."  
PEDERSEN

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## Message Attributes

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